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Canada and the preference

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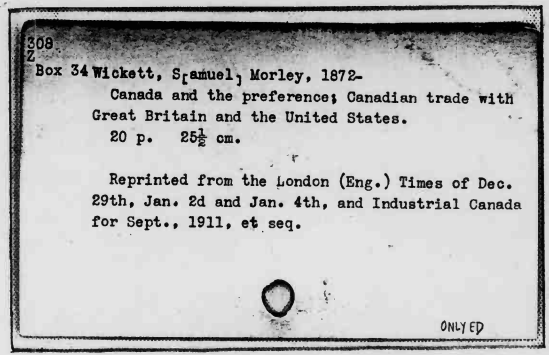
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Canada and the Preference

Canadian Trade with Great Britain and the United States

(Reprinted from the London, (Eng.) *Times* of Dec. 29th, Jan. 2nd and Jan. 4th, and *Industrial Canada* for Sept., 1911, et seq.)

By S. Morley Wickett

With the Compliments of

S. MORLEY WICKETT.

Aug 12 1916 Jan 29

Canada and the Preference

Canadian Trade with Great Britain and the United States

PROBABLY most Canadians still view their foreign trade with the great Republic to the south and with Great Britain from the point of view of possible political consequences, which means that under such circumstances the tariff stays involved in the intricacies of party politics and must be judged by some other criterion than theoretical economics. For the very reason that the tariff is regarded not merely as a trade, but in part as a political question, it remains an object of outstanding interest to all classes at home and to students of Canadian political development abroad. And particularly at the present moment any important change in the tariff may mean a great deal for future trade affiliations.

The History of Preference.

The preference granted by Canada to Great Britain started out on April 23rd, 1897, in one sense as a flank attack on protection. Sir Richard Cartwright, then and still Minister of Trade and Commerce, so stated on the floor of the House of Commons. The initial preference rate, which was one-eighth, was enjoyed by Germany, Belgium, France and Spain by reason of trade treaties wtih Great Britain. But on the denunciation of the Belgian and German treaties and their expiration in July, 1898, the preference was increased to one-fourth from August 1st, and confined to goods from the United Kingdom and those British Colonies giving Canada as favorable terms as they received from her. A further increase from one-fourth to one-third was made on July 1st, 1900. From the remarks of Sir Richard and other evidence it is

clear that the preference must be regarded as a measure of tariff reform at the hands of a political party traditionally pledged to a lower tariff. Incidentally it constituted a clever reply to the Tory cry of disloyalty—a cry that had been thrown at the Liberal party for a number of years because of its platform of reciprocity with the United States. It soon looked as if the idea of a preference had passed from the hands of the political parties to become, as far as such things can be, a fixed principle of the Canadian tariff. And so it seemed until the negotiation of the French treaty in 1907, followed last year by the removal of the German surtax, the treaty with Belgium, and the announcement that the Government would shortly enter once more into trade negotiations with the United States.

The important role played by those of French descent in Canadian life makes it readily understood, quite aside from the possible value to Canada of the French market, why a commercial treaty with France was negotiated. Apart, however, from comparatively few lines (more particularly embroideries, gloves, silks, soaps and cheese), the items given most favorable rates will probably be found not to compete seriously with British goods. Belgium being a country convenient for transhipment from the continent, the treaty with her raises other considerations, especially as Canada's examination of European customs declarations is superficial and inadequate. Under the circumstances there is grave danger that the granting to her of the intermediate tariff on numerous items not produced largely or at all in Belgium may in practice extend the same low rates much more widely than intended.

Attitude of the Present Canadian Government.

It may be argued that it would have been highly impolitic on the part of Canada to refuse to discuss tariff matters with the United States when for the first time in her history she was invited to do so. To this there is no adequate answer, particularly as the two countries have many important international matters to settle from time to time. Though as regards the tariff Canadians cannot forget that the whole history of the Dominion has been fought out in the face of a singularly hostile legislation on the part of the United States, resulting in a tariff admittedly sharpened to force Canada into commercial union with her. It is too soon to forget it.

Canada's rapid growth, which dates only from the nineties, has been the outcome of the opening up of the country and of the policy of developing trade routes east and west instead of north and south. This development, brilliantly successful as it has been, is not yet completed; and to reconsider at present Canada's trade relations with the United States must risk opening up the question whether past commercial policy should be reversed or weakened. Most probably the Government will not venture on any important tariff changes. But the fact that the Cabinet has the extraordinary power by mere order-in-council to reduce the tariff from the general to the intermediate rate without reference to Parliament, and the further fact that the Government has no Tariff Board for expert reference, such as exists in the United States and other countries, unite to make Canadian business men peculiarly sensitive to the mere possibilities of the situation. This feeling of apprehension on the part of Canadian industry is given a further show of reason by the provisional character of present trade agreements and by the traditional leaning on the part of the Government towards a lower tariff, which its recent trade negotiations confirm.

Canadian Protection.

As a distinct policy Canada's protective tariff dates from 1879; but the Canadian Pacific Railway did not bind the provinces together from coast to coast for another seven years. In the meantime, and, in fact, for a further eight years, the tariff did little more than allow Canada to maintain a separate existence from the United States. Only with the gradual opening up and development of the country and the improvement of the trade routes east and west was an assured future realized. Plainly stated, the British market became Canada's salvation; and it is very largely still. Coming as it did at this stage the preferential tariff fitted in with the natural course of evolution, and it gained additional support from the outburst of Imperial sentiment at the time of the South African war and subsequently.

The Meaning of Preference.

As regards the preference, both British and Canadian business men have come to understand better what it really means. Possibly the average citizen not familiar with trade conditions has still to learn that it is something more than a toy. For a

time the sentimental aspect bulked more prominently than any other. But those to whom its influence has been brought home now view it both as a business and as a political policy. It may be agreed that it is not a mandate for mutual sacrifices, nor a medium to work out single-handed a revolution in trade relations. It is simply an important object-lesson in political and constitutional relations, a partial offset to British geographical remoteness and a measure of tariff modification.

Canadian Opinion on Tariff Revision.

Canada is undoubtedly protectionist. But as regards present public opinion on tariff revision as against the United States it is impossible to speak with certainty. Much depends upon the popular presentation of the situation, and as yet the lines of cleavage on this matter between the political parties have not been clearly drawn. Certainly business conditions and prospects are very different from what they were in the eighties and early nineties when the commercial union movement disturbed the country, and they are different from what they were in the year when the successive stings of the McKinley, Wilson and Dingley tariffs were fresh in the popular mind. In certain quarters there is doubtless a curiosity to hear what the United States will now propose. Certain groups in the North-West and in the Maritime Provinces evidently stand ready to endorse a number of tariff adjustments, although in both of these sections the development of local industry is already beginning to make itself felt. For a number of years, too, for reasons that need not be given here, but which constituted an understanding between the manufacturers and the Government, and which seems to be working out to the disadvantage of the manufacturers, Canadian industrial interests have not engaged in any campaign of popular education with regard to protection; and apart from the question of the British preference tariff matters have not been prominent in political debate. But any serious modification of the tariff in favor of the United States during the next few years, or until the United States has lowered her tariff against Canada to approximately the Canadian level, would probably whip at least Ontario and Quebec into one of their old-fashioned political passions. And as regards the farmer, he is generally speaking in a most comfortable position; where he is not, it is due to the neglect of his opportunities. Added to the foreign demand for his farm produce, the home market

has increased so rapidly that local prices are often as high as, if not higher than, in Great Britain. The home market already consumes a high percentage of many lines of Canadian produce, and is growing by leaps and bounds. Of the wheat, barley and oat crop of 1909, 81 per cent., and of the total product of the farm, 89 1-5 per cent was consumed locally. For the time being Canada is an egg-importing country; her butter exports are disappearing; the export of cheese has fallen markedly, and the export of bacon has been cut in two. Looking to the future, it might indeed be wise on the part of the Canadian farmer to continue to make sure of his own and of the British market rather than to attempt to cultivate closer trade relations with the United States. And in any event it probably will not be long before the United States will be knocking at the door for Canadian raw materials without laying down conditions of reciprocity.

The Application of Preference.

It must be admitted at the outset that as yet the preferential principle has not been thoroughly tested. To lop off 12½ or 25 or 33⅓ per cent. on the whole tariff list is not necessarily to adapt preference to the conditions of the British market. It may and it may not. It is at best a hit or miss method. To test its possibilities the amount and extent of preference should be decided from a British as well as from a Canadian point of view. It should be the result of a careful investigation of conditions and possibilities. In other words, it should be confined to classes of goods that are actually produced within the Empire, in which there is a likelihood of larger trade. Otherwise it is an invitation to false customs declarations and to fiscal and industrial confusion. In the revision of the tariff in 1906 the principle of a uniform preferential cut was abandoned, it is true; but the observation still holds in that the revision was made from a purely Canadian standpoint.

Canadian Trade.

As a young and growing country Canada has large exports and still larger imports. Most of her exports go to Great Britain; most of her imports come from the United States. With a population of less than 8,000,000 she ranks next to

Great Britain and Germany in the list of United States customers. For the year ending with March, 1910, the figures are:

Exports to	Million $	%
Great Britain	149.6	48
United States	113.1	52
	262.7	

Imports from	Free.	Million $ Dutiable.	Total.	%
Great Britain	23.5	72.2	95.7	30
United States	133.	104.7	223.5	70
			319.2	

Possibilities of Directing It.

The question at once arises how far the current of this trade can be deflected by preferential and related legislation. In forming our judgment we must not overlook certain permanent conditions of Canadian trade. No amount of rational legislation could make Canada buy from England agricultural produce, timber, raw cotton, tobacco, petroleum, and a host of other things not classed as manufactures. Great Britain's sales to Canada are chiefly manufactured goods. Sometimes the public speakers, wishing to discover the "natural" trade relation of Canada and Great Britain make use of the totals of duty-free imports; but such figures cannot be employed, in that a great deal of what are largely called raw materials is dutiable, and the free list is a reflection of something very different from the "Divine Order."

That Canada and the United States are geographically inter-dependent to an important degree is obvious. The United States looks to Canada for nickel, copper, asbestos, spruce, pulp, timber, fish, and in certain contingencies agricultural produce. Canada looks to the United States for raw cotton, tobacco, hard coal, hardwoods, Indian corn, and a long list of manufactured wares, especially those subject to quick, and taken singly, rather small orders. For the year ending with March, 1910, apart from settlers' effects and bullion, what may be classed as raw material made up thirty-three per cent. of the imports, as against seven per cent. from Great

Britain. In both cases this raw material is made up of remarkably few items. Five-sixths of that coming from the United States is represented by the following (in million dollars): Coal, 27.3; Indian corn, 5.1; lumber, 4.2; green fruits, 3.7; undressed furs, hides and skins, 4.8; raw tobacco, 2.9; gutta percha, 3.3; metal ores, 2.7; bar iron, iron sheets and scrap iron, 2.6. Apart from the last item these purchases, one may admit, are more or less fixed, of the British seven per cent. none of the items can be regarded as fixed: Bar iron, iron sheets and scrap iron, 2.45; undressed hides, skins and furs, 2.1; washed wool, .97; bread stuffs, including seed, .55; diamonds, .54; breeding animals, .53; salt, .25; coal, .22; fruits, .17; raw tobacco, .06.

To look at the course of trade from another point of view, imports from Great Britain covering the produce of the farm, forest, mine and fisheries, raw and slightly manufactured, were only $6,500,000, as against over $83,000,000 from the United States. Tariff legislation could not be expected to disturb this division to the advantage of Great Britain. In fact, direct ocean steamship service between foreign ports and Canada would cut off some of the British trade in southern products and reduce by that much the imports now returned as British. Omitting bullion, settlers' effects and tea, and allowing $5,000,000 of British goods credited wrongly to the United States, this leaves $90,000,000 of manufactured goods from Great Britain, as against $120,000,000 from the United States. This $120,000,000 is the possible target for preferential legislation, and I think will approximate the actual business situation. All things considered, these figures do not place British trade in a very unfavorable light, though improvement is undoubtedly possible. I may say that the totals are compiled from the unclassified Trade and Navigation Returns. To what extent, now, is this trade in manufactures and in other lines natural and fixed? One can only answer by describing conditions.

As regards the possibilities of tariff legislation there may be perhaps an inclination to draw conclusions from the striking results of the German surtax. But this is dangerous, for Germany's economic relations with Canada are very different from those of the United States, her Canadian sales being much more amenable to legislative influence.

The American Tariff.

The United States tariff being, as a rule, prohibitive of Canadian manufactured goods, Canada's sales to the United States are upwards of nine-tenths raw or nearly raw material. Apart from the products of the farm, forest and mine, practically in their rough state, drugs and medicines, whiskey, pig iron, fertilizers, coke, cement and tea, there are only a few scattered items of importance. The extended and subtle sub-divisions of the United States tariff, with a view to securing protective efficiency on particular items, are only appreciated by the foreign manufacturer attempting to develop a market in the United States. That tariff has been aptly described as a "tricky one." What can a Canadian manufacturing jeweller with 35 per cent. protection do against a United States duty on jewellery of 60 per cent. and on enamelled jewellery of 85 per cent.? Sole leather is now 5 per cent., upper leather, 10 per cent., but leather belting and footballs 40 per cent., leather cases and pouches 60 per cent., threshing machines 15 per cent., but steam engines, which must accompany them, 30 per cent. (if the engine is a gasoline engine the duty is 45 per cent.), and all repair parts 45 per cent.

With a view to determining the average rate of customs duty levied by the United States on Canadian imports most writers take the total dues collected in relation to the bulk of trade done. But this is a fallacious basis, in that the question here hangs really not on the amount of duty collected, but on the protective or prohibitive efficiency of the tariff. For example, the importation of ships to be registered in the United States is prohibited outright; the duty on carpets is roughly 75 per cent., which is prohibitive as far as Canada is concerned; pianos, 45 per cent.; watch chains, 60 per cent.; machinery, 45 per cent.; tweeds and serges, 100 to 150 per cent., etc. I have made up a list of somewhat over forty staple commodities produced or manufactured in both countries, which one might expect in the natural course of affairs could be mutually traded in. On these items the average United States duty is 44 per cent., as against 24 per cent. charged by Canada, which is probably sufficiently typical of the relative tariffs of the two countries in actual practice. On the theory of infant industries one might have expected the percentages to be reversed.

In fact, the whole United States system seems conceived

in protection. With a view to facilitating trade Canada has customs ports of entry in all towns of any importance throughout the county; the United States, on the contrary, besides specifying that consular certificates shall accompany all shipments of over $100 value, requires that entries be passed at the frontier in a very small number of places—which means also the employment of customs brokers—a system causing delays and frequently considerable annoyance and extra expense to the importer.

The Recent Negotiations.

That after establishing such a high tariff, and in return for not levying a still higher one, the United States should ask, as she has recently done, for a still lower one on Canada's part can only be described as a resort to the policy of the big stick. That the Canadian Minister of Finance yielded on a few counts must be explained by the view that the smaller people should humor the bigger one to some extent—after all, probably a statesmanlike policy, if not carried too far or repeated. The call for a lower tariff at present making itself heard in the United States will probably not bear much fruit for several years yet. It will then be time after Canadian development has reached a higher stage of industrial maturity for Canada to consider whether freer trade with the United States is advisable. At present every Canadian knows that a generally lower tariff against the United States would mean the end of much of our British trade and the yoking of Canadian industry to the characteristic speculative ups and downs of the United States market—a feature of which the English buyer, too, has reason to know something. The Anti-Dumping Act passed by Canada in 1904 was itself a recognition of the desirability of checking this very result. According to this Act, duties have to be paid under heavy penalties, on the basis of current prices in the exporting country; and in case of a lower quotation the Government itself appropriate the difference up to 15 per cent. of the value, providing the difference is at least 7½ per cent. In the opinion of the Manager of the Tariff Department of the Canadian Manufacturers' Association, this legislation has served to check dumping when trade in the United States is good, but has not been and could not be effective when business was bad. Secret rebates, too, are probably not an uncommon means of dodging the Act. But on the whole it seems to have

proved to be a wise bit of protective legislation, especially under a moderate tariff.

Protection and Export.

As regards the relation of tariffs to export trade it must not be forgotten that in the event of imported goods being made into finished wares and exported, both the United States and Canada allow a rebate of 99 per cent. of all duties paid. This partly explains how it is sometimes possible to quote lower prices for export than for home consumption. It also explains why United States goods are sometimes shipped to Canada via England; for the Canadian duty is levied on the price current in the country of sale, not in the country of origin.

Accuracy of Trade Statistics.

Coming more directly to the question of trade in manufactures between Great Britain and Canada, it is to be noted in the first place that Canadian trade statistics need a great deal of amplification and editing. For example, large importations of free goods are made through United States brokers acting as British agents. It is the old established practice of many English houses to give the agency for Canada along with that of the United States. Fortunately, the tendency is now slowly working towards the creation of separate agencies for Canada. On the other hand, large export sales are made by Canada through United States export houses, and such exports are placed to the credit of the United States. Sometimes there is a special reason, as, for example, when in the case of cut lumber a United States firm will take the output of special cuts of a great many Canadian and domestic mills, sorting these specialized cuts to the market. Thus, while American builders demand 8-inch, 10-inch, and 12-inch boards, English architects call for 7-inch, 9-inch, and 11-inch cuts, and only in this way could such orders be filled conveniently.

United States Advertising.

That prevailing tastes in Europe and America are different needs no argument. Outlook on life and ways of living are not the same. United States industries have, therefore, an initial advantage in catering to their own continent, especially when aided by the greatest mania for advertising of

specialties and novelties characteristic of any country or any time. England sends into Canada more Bibles and prayer-books than the United States, but far fewer periodicals. On catalogues Canada levies a customs duty of 15 per cent., but many United States houses get catalogue-substitutes in free in the form of magazine advertisements; and the suggestion has been made to the Minister of Finance that the unusual and altogether unique situation of literature and advertisements being bound up together should be met by a specific duty per pound on foreign periodicals. The experiment is worth the trial, not alone because of this one point, but also (one may say it without disrespect) because the United States magazines flood the public mind with a glorification of their own country, and, more or less often, with a disparagement of people and things not American.

Character of New World Demand.

Of the new-world citizen it can be said he is often contented with less substantial goods than the Englishman; thinks much of neat appearance and loves change. Witness the, at times, amusing extremes of the American shoe, the lightness of carpenter's tools (probably because the American carpenter works more on soft woods), bicycles, automobiles, brass goods, jewellery, etc. The styles in travelling bags have run the gamut of half a dozen colors and a still greater number of shapes and sizes, while the Englishman has stood by his essentially satisfactory tan or brown bag. The stress of competition, the desire to catch the consumer's eye and to extend sales drive the American manufacturer on. A faddy market may be expensive; as Americans say, it may "come high" and be economically wrong, but it means a monopoly for the local manufacturer. It is not necessarily a question of quality, but of something else. New devices, new processes perhaps break up old connections, and the high cost of labor places the manufacturers of both Canada and the United States in the same boat as regards their interest in mechanical appliances. The frequent discarding of the old by United States industry may at times fall into prodigality; and in any event it increases overhead expenses as compared with Canada, and still more so with England.

Conditions of Market Supply.

Some of the circumstances under which goods reach the consumer through the great expanses of America have an im-

portant influence. For example, the most remote rural jeweller may handle a Waltham or an Elgin or a Swiss watch, and through the one make he selects can allow his patron to choose from 120 or more classes or grades. No British watch-house can offer more than a fraction of this range. It is not necessary to seek for explanations from the instructive history of the British watch-trade. Here the preference of the country jeweller is decided not necessarily by a question of quality but of ease in doing business. He can satisfy almost any demand by the one catalogue and a letter or a wire to the one address. It is a condition created by external circumstances and fostered by advertisements and by repeated and effective "drumming." The wide range in styles of shoes, half-sizes in underclothing, etc., etc., help in the same direction as does the fact that United States' quotations are always in dollars and cents. The more frequent use of mercantile and other agencies for reports on the financial reliability of houses, and greater elasticity of credit are also characteristic of United States business dealings. This is of particular importance, looking to the inception of business relations. Thus American industry adapts itself to, and grows with, the country, and eventually is hard to dislodge. Imperial penny postage, which Canada arranged for in 1898 through the splendid work of Sir William Mulock, has proved a distinct aid to communications with Great Britain, as has also the later lowering of the postage on British magazines. If low cable rates could be secured it would be a still more important aid in holding British trade connections. So infinitely important to business is a low cable tariff that the whole cable situation should be given special study by Great Britain.

Importance of Warehouse Facilities.

But no degree of improved communications can alone counterbalance geographical remoteness. Quick deliveries, quick repairs from stock of adjustable parts mean well-equipped local supply houses at strategic points. Thus far British manufacturers have had their eyes on too many markets to specialize on the scattered and divided Canadian demand. But the situation takes on a different aspect when it is noted that if business methods mean anything, an effort for Canada's business is at the same time an effort for greater trade over all North America.

The Needs of the Moment.

The large amounts of British capital sent yearly to Canada are frequently pointed to as a means of securing business for Great Britain. But the great bulk of these investments go into public securities and railway and industrial bonds, comparatively little into industrial stocks, which carry the technical management. The number of cases where Canadian factories are in charge of British managers and British foremen is remarkably small. From an investigation recently made by *The Monetary Times* of Toronto British investments in Canada during the past five years total up to $605,000,000, of which only $22,500,000 were of a specifically industrial nature. On the other hand the United States, the same journal estimates, has invested at present some $279,000,000, only a comparatively small amount of which has been placed in public securities. The figures, as given, are as follows:

British Investments in Canada during past five years:

Canadian bank shares purchased.....	$1,135,000
Investments with loan and mortgage companies	5,719,774
British insurance companies' investments	9,731,742
Municipal bonds sold privately	10,000,000
Industrial investments	22,500,000
Land and timber investments	19,000,000
Mining investments	56,315,500
Canadian public flotations in London....	481,061,836
	$605,453,852

Present United States Investments in Canada:

175 Companies, average capital $600,000 .	$105,000,000
United States investments in B. C. mills and timber	58,000,000
United States investments in B. C. mines	50,000,000
Land deals, Alberta, etc.....	20,000,000
United States investments, lumber and mines in Alberta	5,000,000
Packing plants	5,000,000
Implement distributing houses	6,575,000
Land deals, British Columbia	4,500,000
Municipal bonds, sold privately	25,000,000
	$279,075,000

These figures only illustrate what is a matter of common knowledge in Canada—that in contrast with British capital the great bulk of United States capital enters the country as branch factories and other outright industrial investments. With superintendents and foremen from the United States it is not surprising that English travellers and goods have often a poor chance of a market. Whatever fault may be found with citizens of the American Republic they can never be accused of unbelief in the peculiar virtues of American ideas, methods, men and industrial products. It is worthy of remark that of the recent Presidents of the Canadian Manufacturers Association three were heads of branches of United States houses; but in these cases it need hardly be said they were none the less Canadian.

Trade Agents.

Of the influence of the nationalities of the new settlers in the West and elsewhere it is too soon to speak. With actual trade conditions and prospects the United States keeps in remarkably close touch by newspaper correspondents and by means of Consuls located in the chief towns throughout the country and making frequent reports to Washington. At present there are no less than 76 United States Consuls and Consular Agents as against one British Trade Commissioner located at Montreal, with a few trade correspondents, who, I think, Mr. Richard Grigg, the able British Trade Commissioner, would agree are hardly to be compared with the Consuls. It would also seem as if Canada should take a leaf from the United States and definitely develop a trade consular system the beginnings of which are seen to-day in the Canadian trade agents, and as Washington does, collect the incidental expenses as fees from the foreign exporters. In addition to being a trade agency, the consular system, by its advices and by the fees it requires of exporters, gives a certain amount of additional direct protection, while it serves also as a medium for checking customs' undervaluations.

Transportation Routes.

Behind these and other influences stands the problem of transportation. New York to Toronto or to Montreal, St. Paul to Winnipeg, Seattle to Vancouver are but over-night runs. The Liverpool merchant ships to Canada by four routes:—

1. To Halifax (2,342 miles), or Montreal (2,800 miles), thence rail, or from Montreal river steamer to head

of Great Lakes. To Vancouver by this route is 5,800 miles; time required for freight 8 to 12 days to Montreal, thence 14 to 30 days to Vancouver.
2. Via Mexico to Vancouver by the Tehuantepec route (190 miles), across the peninsula (8,000 miles), 42 to 45 days.
3. Via the Suez (15,522 miles), 70 to 80 days.
4. By tramp steamer via the Horn (14,317 miles), 70 to 90 days.

From Vancouver inland the distribution is by rail.

How Rates are Fixed.

Through rates from both Eastern Canada and Europe are governed by those via the Suez. This water competition, to which latterly the Mexican route has been added, has been disturbing to existing trade. If the Panama project is successful the results may be still more marked. One may be pardoned for suggesting a doubt as to the permanent commercial feasibility of a canal across a dangerous earthquake belt, the approach to which moreover, on the Atlantic side at least, is said to be closed to sailing vessels. Panama is also 1,000 miles further south than the Tehuantepec line. Already shipments from Eastern Canada to British Columbia are sent via Mexico simply because this route is at times able to underbid the all-rail route. But if this relief to Eastern Canada is to be permanent it must be conditional on the vessels securing return cargoes to English ports, thence fresh ones back to Canada. A policy of diverting Canadian exports from Great Britain to the United States would thus seriously militate against the success of this new and important commercial development. Certainly in improving Canadian shipping facilities British trade has been and is worth much to Canada.

Shipments via Chicago.

It may be said that for freight traffic for Western Canada there is close competition between Canadian lines and lines via and from Chicago. As is to be expected in a new country the rate per ton per mile is somewhat higher on manufactures and merchandise in Canada than in the United States. The Manager of the Transportation Department of the Canadian Manufacturers' Association estimates that probably 15 per cent. of Eastern Canada's shipments to the Canadian West

go in bond via Chicago—a percentage that will doubtless lower when the Canadian Northern and the Grand Trunk Pacific railways are completed. Here it should be mentioned promptness of delivery or "efficiency of service," as it is called, is often as important as a favorable freight rate; for example, in the delivery of Ontario fresh fruit in Manitoba, etc. To competitive points in Western Canada the rate from Chicago is usually somewhat lower than from Eastern Canada, to non-competing points proportionately higher. For through carload shipments from Chicago to the Pacific the greater industrial specialization of United States manufacture and the larger size of United States warehouses on the coast admit often of closer rates than those quoted from competing points in Canada. Just how these differentials affect trade is only known fully to those directly concerned. In the case of free goods they obviously count heavily; and mean more with goods of low specific value than with goods of higher value. Particularly in the former case a difference in freight charge may convert a profit into a loss.

Rates to Eastern Canada.

From Great Britain and Continental ports to Ontario and Eastern Canada through rates are arrived at by adding the ocean rates as fixed by the North Atlantic Freight Conference to what are known as "import" rates, these rates being somewhat lower than the domestic rates from the seaboard. And as regards the "import" rail rates they are a matter of agreement between the lines operating from Canadian and Eastern United States Atlantic ports.

Rates to Western Canada.

To points West of Port Arthur, that is West of the Great Lakes to the Rockies, special through freight rates are published from Europe. These rates are also fixed by the North Atlantic Freight Conference, and there has been a gradual increase in some of them in the last year or two. To some extent they are governed by competition via United States routes.* It may be said that any increase in through rates to the Canadian interior operates to that extent adversely to British and favorably to United States freight.

*The Spokane rate case recently settled by the Interstate Commerce Commission is not important in this connection.

The Pacific Coast as a new Distributing Centre.

With the completion of the Grand Trunk Pacific and the Canadian Northern Railway, now under construction, to the Pacific Ocean, the Pacific slope will become a more and more important distributing centre for Canada. Even now European freight rates via the Suez to Vancouver are lower than those direct from Montreal. It means new and important problems for the broad Dominion. It means that already Canada is divided like all Gaul into three parts—east, west and centre; the centre being, so to speak, a neutral zone where freight charges bulk more largely and are the objects of keen comparison. The matter is not closed there. Protected by these higher freight costs local industries may be expected to spring up, and actually they are already springing up, at different points, particularly at the head of the Great Lakes where there is admirable water-power.

Canada's Great Problem.

Thus to keep the Dominion contentedly united is one of the great reasons why plans are being carefully studied for improving the canals to the head of the Great Lakes, for building a railway from Hudson's Bay to Winnipeg (to make effective the Hudson's Bay route to England), for local waterways in the great prairie country, and for supporting fresh railway connections between the Pacific and the interior. That there is no time for delay is evident from the fact that while in 1890 there were three United States railway lines crossing the boundary west of Lake Superior, to-day lines cross at over a dozen points. Many United States stub lines, moreover, run up to the border, and with little additional cost could be extended to tap any given locality. As railway men know, local lines of this class are subject to much lower costs of transportation than the main lines of a great system. And if, in order to secure return cargoes, United States railway and other interests should find it necessary to secure control of a certain number of newspapers and inaugurate in this way or otherwise a campaign for tariff modifications, the situation might become more than interesting. So often the real moving force behind political campaigns is hidden. It is such conditions and possibilities that make the tariff problem of Canada so overwhelmingly important.

The Importance of Shipping Facilities.

Through her splendid shipping facilities, and aided by the preferential tariff, Great Britain has now the big end of the through western coast trade. Without the preference the Canadian Pacific Railway would be able to handle considerably more of this trade originating in Eastern Canada than it does at present. In other words, if the preference was less through Canadian freight rates could be higher. Tariff and freight rates are thus indissolubly connected. Another illustration of the practical identity of freights and customs tariffs is the working of the French treaty. The tariff reductions under this treaty apply only to shipments made from France or via Great Britain direct to a Canadian port. With but one line of steamers running between France and Canada this shipping becomes more or less of a monopoly; and when advances in freight rates were made last spring it was claimed that the increases were made possible by the French preference which they to that extent reduced. I am advised that the old rates have now been restored. Not having steamship connection with the Pacific coast the French are almost excluded from that trade. Should at any time the British preference be confined to shipments direct to Canadian ports, as the Canadian Maritime Boards of Trade desire, it is to be expected that the ocean steamship companies would endeavor to secure a share of the preference by advancing their rates unless such rates were fixed beforehand and rigorously controlled by international agreement.

From this brief survey certain conclusions with regard to the preference can be drawn:

1. A simple tariff modification may not be effective unless it applies to cases and conditions admitting of success. As yet the powers of the preferential tariff have not been tested out. The preference is not merely Canadian; it is Imperial. As it is it has certainly diverted considerable trade in some lines to Great Britain, buttressed British trade in other lines and been a big influence in arousing British manufacturers to the conditions of the Canadian market. It may mean much more if it is realized that an effort for Canada's market is an effort for North America.

2. The problem of transportation (railway, steamship, post and cable) and the related ones of free harbors, and greater British warehouse facilities in Canada demand much more attention.

3. Freight rates are in practice an important and integral part of customs tariffs.

4. Present trade statistics are not sufficient to disclose conditions.

5. The preferential tariff has probably had much to do with the expansion in Canadian shipping.

An Imperial Business Commission Necessary.

An investigation of these conditions is desirable. The results should be an invaluable guide for all parts of the Empire in regard to the possibilities of free-trade, preference and protection. Only a systematic, vigorous pursuit of such an investigation will be able to give intelligent direction to those at the helm. If the preferential system is good an attempt should be made to take advantage of it and to preserve it; if it is a mere sentimental effusion—"the wonder of an hour"—this should be discovered. In short, what part it can play in inter-Imperial relations should be told by a body whose judgment we can respect. Otherwise what might have been a great Imperial cohesive force may gradually spend itself and be lost. Even a British political party wedded to free-trade can be expected to investigate the question with the object of throwing light on conditions not adequately understood, conditions that keep sentiment unenlightened and perturbed. I believe that the time is opportune for Great Britain directly or through the Colonial Conference, to appoint an Imperial Business Commission to investigate the whole subject. Not that we are at the parting of the ways, though in the light of recent tariff changes it seems almost like it. Let that be as it may, for the cause of Imperial consolidation, whatever conclusions such a body might come to, the elucidation of Imperial trade conditions, relations and possibilities alone would be invaluable.*

In the meantime it surely behooves Canada to hold to the path she has been following, to continue to develop trade east and west, and keep her industry as free as possible from the influence of the fluctuating trade conditions and uncertain legislation in the United States. The economic success of the present tariff, and the unprecedented prosperity of agricul-

*On motion of Sir Wilfrid Laurier the recent Colonial Conference agreed to the appointment of Imperial Trade Commission, and the British House of Commons has since made provision for it.

tural Canada, no one seriously questions. While being courteous in every respect to her great neighbor, Canada can afford to go slow in acceding to any proposals for tariff trading. The time has gone by, and, we may also say, has not yet arrived, for any other attitude.

Toronto, September, 1911.

END OF
TITLE